Institutional Managers' Digest

Issue 6: June 2024

Enter

In this **edition**

The June 2024 iteration of the Institutional Managers' Digest provides insights into the Q2 performance of survey constituents while also delving into topics related to changes within the asset management landscape that took place within the quarter.

Head of Asset Allocation, Mandisa Zavala, features in our expert insights interview, providing background on her journey within the investments industry and personal development.

The survey in focus features an overview of the Multi-Manager Survey, with some comparative statistics related to performance being provided.

Introduction

Q2 saw strong performance being realised by South African equities and bonds over the quarter, with the FTSE/JSE All Share index ending the quarter with a return of 8.19%. Domestic bond markets performed well within positive territory, with the All Bond Index (ALBI) producing a quarterly return of 7.49%. Amidst volatile month-on-month performance, domestic property also realised positive performance for the quarter, with the FTSE/JSE SA Listed Property Index producing a return of 5.50%. The Large Manager Watch (LMW) category of our flagship Manager Watch™ Survey saw its constituents reflecting quarterly peer group median performance for the SA and Global LMW categories of 7.10% and 4.04%, respectively.

Globally, emerging markets showed strong performance in Q2, with the MSCI EM recovering from negative performance in April 2024, resulting in a quarterly return of 1.36%, significantly lower than the Q1 performance of 6.07%. MSCI EFM Africa showed similar performance, ending the quarter on 1.25%, outperforming MSCI EFM Africa ex SA, which had a quarterly return of -1.74%. MSCI World had fluctuating performance and the S&P 500 recovered from negative returns, with total quarterly returns of both indices reported as -0.71% and 0.43%, respectively.

The domestic interest rate outlook remains unchanged as the South African Reserve Bank holds a steady repo rate of 8.25%. This is primarily because inflation has yet to ease as anticipated, with inflation levels still beyond the SARS midpoint target at 5.2% in both May and April 2024 and 5.1% in June 2024. The FED has also kept interest rates constant, in fear of a flare-up in inflation because of prematurely cutting rates. Contrary to these, the ECB has seen it fit to reduce interest rates by 25 basis points to boost economic activity amidst easing inflationary pressure.

Sharpshooter

The Sharp Shooter (best absolute performer across all surveys) for the quarter is **Ninety One Value Composite**, participating in the **Equity Survey** with a return of **17.07%**.

The best relative performer for the quarter was the **Ninety One Value Composite**, participating in the **Equity Survey**, outperforming its benchmark by **8.88%**.

17.07% Ninety One Value Composite

8.88% Ninety One Value Composite

Surveys
in numbers

Some interesting facts generated over the second quarter of 2024 across all surveys include:

88 **Asset managers participating** across our surveys

766 **Participating strategies** across our surveys

48 **BEE level 1 contributors**

R8 trillion **Total assets under management** (AuM - December 2023) of all participating strategies

61 Signatories of the **UN Principles for Responsible Investment (PRI)**

477 **Portfolios outperformed their respective benchmarks** (excluding International, Namibia, FoHF, Africa and LDI surveys)

540 **Portfolios increased their market values** (excluding FoHF survey, international survey and LDI survey)

71 Companies endorsing the principals of the Code for Responsible Investing in South Africa (CRISA)

Read more

Industry news

Alexforbes launches Retail Manager Watch™ surveys to empower independent financial advisers and investors: On 2 July 2024, Alexforbes announced the launch of its new Retail Manager Watch™ surveys, aimed at providing valuable insights to independent financial advisers (IFAs) and retail investors. These surveys, building on the success of the Institutional Manager Watch™ series, will offer comprehensive performance data segmented into low equity, medium equity, and high equity categories, in line with ASISA guidelines. The surveys, published monthly, will cover a range of portfolios from 21 asset managers with a total of 43 portfolios. The March 2024 survey reported R574 billion in assets under management. The surveys are divided into two sections based on the performance history of the portfolios: up to seven years and 10 years or more. Alexforbes plans to publish additional surveys covering Bonds, Equity, Money Market and Property in July. Don Andrews, head of the Alexforbes investment survey team, emphasised the initiative's value to the investment and financial advice.

Coronation bags major legal win against SARS: Coronation has won a legal battle against the South African Revenue Service (SARS) over its 2012 taxable income assessment. The company appealed to the Western Cape Tax Court, which set aside the assessment in 2021. The Supreme Court of Appeal (SCA) reinstated the assessment in February 2023 requiring Coronation to pay additional taxes, interest, and costs. The SCA dismissed SARS' claim for penalties. Coronation's total obligation to SARS in 2023 amounted to R716 million. The Constitutional Court ruled in favour of Coronation, setting aside the SCA's orders. The full impact of the lawsuit is R794 million, and Coronation's shares have rallied, up almost 4%.

Publication of the Jibar transition plan: In 2018, the South African Reserve Bank (SARB) launched an initiative to enhance reference rates and introduce alternative benchmarks aligned with the International Organization of Securities Commissions' (IOSCO) 'Principles for Financial Benchmarks'. The SARB issued a consultation paper proposing various benchmarks and formed the Market Practitioners Group (MPG) to finalise these proposals. The MPG includes representatives from the SARB, the Financial Sector Conduct Authority, and senior professionals from diverse financial institutions and market interest groups in the domestic money market. It operates through dedicated workstreams and technical subgroups that provide technical input and recommendations on the transition from the Johannesburg Interbank Average Rate (Jibar) to the South African Rand Overnight Index Average (ZARONIA), which is based on actual transactions and calculated as a trimmed, volume-weighted mean of interest rates on eligible unsecured overnight deposits. This release is not an announcement of Jibar's cessation or a statement that Jibar is no longer representative.

Read more

Quarterly index performance

Best performing SA indices in the surveys

Quarter	1 year	3 years	5 years
8.21% FTSE/JSE Capped All Share Index	26.25% FTSE/JSE SA Listed Property Index	11.65% FTSE/JSE SA Listed Property Index	10.88% FTSE/JSE Top 40 Index

Best-performing peer group benchmarks as featured in the surveys

Quarter	1 year	3 years	5 years
7.59% SA BIV Average	12.00% SA Conservative Median	11.50% Global Dynamic Median	11.33% Global Dynamic Median

SA and Global Best Investment View (BIV) – asset allocation

This section explores how asset managers are adjusting their investment strategies in both the South African and Global BIV categories of the Manager Watch™ survey. These adjustments are influenced by changes of Regulation 28 of the Pensions Funds Act, in the rules governing offshore investments, particularly an increase in the limit to 45%.

SA BIV - average asset allocation

	December 2023	March 2024	June 2024
SA equities	64.61%	66.36%	67.23%

Constituents of the SA BIV category have displayed mixed variations in their quarterly asset allocation from December 2023 to June 2024. On average, Q2 allocation to domestic equities has increased by 0.87% from the previous quarter, with allocation to domestic bonds decreasing by 1.01% to a quarterly average of 23.46%, which was accompanied by marginal increases in allocation to domestic cash and commodities.

The changes mentioned could be in response to market dynamics or a broader strategy for managing risk and returns, with managers weighing their portfolios while considering the prospect of decreasing interest rates and an improving inflationary environment.

Among the managers, the one with the highest allocation to domestic equities had an exposure of 75.6%, delivering a quarterly return below the upper quartile.

Global BIV - average asset allocation

	December 2023	March 2024	June 2024
SA equities	38.66%	37.17%	38.88%
Total SA assets	**65.80%**	**62.80%**	**64.59%**

	December 2023	March 2024	June 2024
Global equities	25.19%	26.86%	26.23%
Total global	**34.20%**	**37.20%**	**35.41%**

Global BIV category constituents delivered an average performance of 4.01% for the quarter, possibly influenced by the shifts in asset allocation.

Allocation to offshore investments decreased over the quarter by 1.79%, with the constituents of the category indicating a slight shift towards domestic (SA) assets. This is seen by the equal increase in total SA assets of 1.79% when comparing Q1 and Q2 allocations. Among the managers, the one with the highest allocation to global equity assets for the quarter ending June 2024 had an exposure of 41.2%, which is a 2.4% decrease from the previous quarter, delivering a quarterly return slightly above the lower quartile.

Overall, the data indicates a mixed trend with respect to managers' offshore allocations, particularly in offshore equities, in response to the amended regulation 28, which allows for higher offshore exposure. This suggests that asset managers are diversifying their portfolios to take advantage of global opportunities and manage risk, considering the relative attractiveness of different asset classes and markets. Differences in offshore investments and performance across managers are likely to continue, emphasising the importance of smart allocation decisions.

Survey in focus - **Multi-Manager survey**

The Multi-Manager Watch™ Survey is a pivotal tool designed to offer clients, trustees, consultants, and asset managers a clear and unbiased view of performance and risk within South African multi-manager mandates. This survey serves as a benchmark, enabling stakeholders to make informed decisions based on comprehensive and objective comparisons.

The primary goal of the Multi-Manager Watch™ Survey is to deliver objective and meaningful performance and risk comparisons. It helps various stakeholders understand how different multi-manager mandates perform relative to each other. By providing these comparisons, the survey aids in identifying strengths, weaknesses, and areas for potential improvement within the mandates.

2024 Q2 Performance Overview

The 2024 Q2 performance of the Multi-Manager Watch™ Survey reveals intriguing insights into the investment landscape, particularly within the Best Investment View (BIV) and Equity categories. This comparison contrasts the Multi-Manager Watch™ Survey's results with the Manager Watch™ Survey Global BIV and the SA Equity Manager Watch™ Survey to provide a comprehensive view of the current market dynamics.

Multi-Manager Watch™ Survey BIV Category

Average Return	Median Return	Highest Return	Lowest Return
3.99%	3.79%	5.23%	2.70%

Manager Watch™ Survey Global BIV*

Average Return	Median Return	Highest Return	Lowest Return
4.10%	4.11%	9.33%	-2.75%

*Excluding Multi-Managers

In the BIV category, the Multi-Manager Watch™ Survey showed a solid performance in 2024 Q2, with an average return of 3.99%, closely trailing the Manager Watch™ Survey Global BIV average of 4.10%. Despite this slight underperformance, the Multi-Manager Watch™ Survey BIV maintained competitive stability.

Multi-Manager Watch™ Survey Equity Category

Average Return	Median Return	Highest Return	Lowest Return
8.91%	9.01%	9.99%	8.13%

SA Equity Manager Watch™ Survey**

Average Return	Median Return	Highest Return	Lowest Return
8.99%	8.86%	17.07%	2.96%

**Excluding Multi-Managers and enhanced index funds

The Equity category in the Multi-Manager Watch™ Survey demonstrated strong performance metrics, standing toe-to-toe with the SA Equity Manager Watch™ Survey.

Risk statistics – Volatility and tracking error

Lowest volatility

	1 quarter	3 years	5 years
SA Equity*	**0.63%** M&G Select Equity	**10.73%** Allan Gray Domestic Specialist Equity	**13.42%** First Avenue Focused Equity
Manager Watch SA Best Investment View	**1.73%** Allan Gray Domestic Balanced	**8.22%** Allan Gray Domestic Balanced	**9.96%** Foord Domestic Balanced
Manager Watch Global Best Investment View	**1.03%** PSG Balanced Fund	**4.58%** Rezco Value Trend	**5.95%** Rezco Value Trend

*Excluding Enhanced Index Funds

Volatility is measure of investment price fluctuations over time. Higher volatility suggests larger price swings and potential gains or losses.

For example, the M&G Select Equity fund has demonstrated a very low volatility of **0.63%**, indicating stability in its performance over the period. Despite this, it has delivered a modest quarterly return of **6.03%**, suggesting a steady but not particularly high growth trajectory.

Highest volatility

	1 quarter	3 years	5 years
SA Equity*	**11.62%** VunaniFM Core Equity Fund	**15.99%** Cachalia Capital C Value Fund	**23.41%** Fairtree Asset Management Equity fund
Manager Watch SA Best Investment View	**6.65%** Ninety One Segregated Domestic Mandate	**11.56%** Coronation Domestic Managed	**14.42%** M&G Domestic Balanced
Manager Watch Global Best Investment View	**14.15%** Merchant West SCI Managed P&G Fund	**11.93%** Merchant West SCI Managed P&G Fund	**16.20%** PSG Balanced Fund

*Excluding Enhanced Index Funds

Volatility is measure of investment price fluctuations over time. Higher volatility suggests larger price swings and potential gains or losses.

For example, the PSG Balanced Fund exhibited a notably higher 5-year volatility of **16.20%** compared to its peer group's average volatility of **10.78%**. This elevated volatility indicates that the fund's returns are more susceptible to significant fluctuations over time. Investors in the PSG Balanced Fund may experience larger swings in the value of their investments, which can be attributed to the fund's asset allocation strategies, underlying investments, or market conditions.

Lowest tracking error

	1 quarter	3 years	5 years
SA Equity*	**0.09%** Balondolozi Active Equity Fund	**1.35%** Mianzo Enhanced Equity Fund	**1.74%** Alexander Forbes Investments Pure Equity Local
Manager Watch SA Best Investment View	**0.39%** M&G Domestic Balanced	**1.59%** Alexander Forbes Investments Performer Local	**1.93%** Alexander Forbes Investments Performer Local
Manager Watch Global Best Investment View	**0.35%** Nedgroup Investments Core Guarded Fund	**0.51%** Alexander Forbes Investments (Spectrum)	**0.63%** Alexander Forbes Investments (Spectrum)

*Excluding Enhanced Index Funds

The **tracking error** measures how closely an investment follows a benchmark index. It reflects the divergence between the investment's returns and the index's returns, indicating the effectiveness of replicating the benchmark's performance.

For example, the Alexander Forbes Investments (Spectrum) fund has shown an impressively low 3-year tracking error of **0.51%**, indicating its ability to closely mirror the performance of its underlying index. Over the same period, it has achieved a solid 3-year return of **11.41%**, highlighting its effectiveness in capturing the momentum within the market.

Highest tracking error

	1 quarter	3 years	5 years
SA Equity*	**11.47%** Cachalia Capital C Value Fund	**10.87%** Rezco Equity	**11.06%** Fairtree Asset Management Equity fund
Manager Watch SA Best Investment View	**4.42%** Aluwani Domestic Balanced Fund	**9.22%** Aeon Domestic Balanced Fund	**12.22%** Aeon Domestic Balanced Fund
Manager Watch Global Best Investment View	**15.01%** Merchant West SCI Managed P&G Fund	**16.15%** Rezco Value Trend	**16.89%** Rezco Value Trend

*Excluding Enhanced Index Funds

The **tracking error** measures how closely an investment follows a benchmark index. It reflects the divergence between the investment's returns and the index's returns, indicating the effectiveness of replicating the benchmark's performance.

For example, the Rezco Value Trend fund's 5-year tracking error of **16.89%** suggests significant deviation from its benchmark index over the period. Despite this, it has delivered a respectable 5-year return of **7.86%**, showcasing its potential for returns despite the tracking discrepancies.

Survey asset distribution

	December 2023	March 2024	June 2024
Absolute Return	R216 billion	R219 billion	R225 billion
BEE	R712 billion	R717 billion	R734 billion
Manager Watch	R1549 billion	R1522 billion	R1605 billion
Medical-Aid	R64 billion	R63 billion	R68 billion
Multi-Manager	R534 billion	R548 billion	R573 billion
Namibia	R96 billion	R97 billion	R101 billion
Property	R60 billion	R62 billion	R64 billion
SA Bond	R230 billion	R229 billion	R229 billion
SA Equity	R499 billion	R497 billion	R525 billion
SA Money Market	R529 billion	R547 billion	R544 billion
Shari'ah	R33 billion	R33 billion	R34 billion
TDI	R73 billion	R74 billion	R77 billion
Total	**R4 595 billion**	**R4 615 billion**	**R4 784 billion**

According to the figures in the above table, during Q2 of 2024, the assets under management of the survey participants increased overall. When the individual surveys were examined, we observed an increase in the BEE survey's asset value to over R17 billion. Additionally, Q2 saw a R5 billion increase in the Medical Aid assets relative to the R1 billion decline in the previous quarter. The rise occurred due to the combined effect of the addition of two new funds and growth in the portfolio sizes of 11 out of 17 Medical Aid survey portfolios. The assets of the Equity and Multi-Manager Watch surveys also increased by more than R28 billion and R25 billion respectively. Only 15 of the participating funds in our flagship Manager Watch survey saw a decline in their market values this quarter compared to the 61 funds in the previous quarter. This has contributed to the increase in assets of our flagship survey of more than R83 billion, cementing the Manager Watch survey as the survey whose assets increased the most in Q2 of 2024. In conclusion, there was a total gain in market values of more than R169 billion during Q2 2024 across all surveys.

Sustainable investment considerations

The Principles for responsible investment - By Premal Ranchod

The PRI is a United Nations-supported initiative and the world's leading advocate for responsible investing. It supports an international network of more than 3 500 investor signatories in incorporating environmental, social and governance (ESG) considerations into their investment and ownership decisions.

The six principle of investing are:

1. Incorporate ESG issues into investment analysis and decision-making processes
2. Incorporate ESG issues into our ownership policies and practices
3. Seek appropriate disclosure on ESG issues in the entities in which we invest
4. Promote acceptance and implementation of the Principles within the investment industry
5. Work together to enhance our effectiveness in implementing the principles
6. Report on our activities and progress towards implementing the principles

PRI signatories are required to perform mandatory annual assessments to assess the progress they are making in incorporating ESG considerations into their investment processes, and to highlight areas of improvement.

Responsible investing is important to us: it's about you

We have a fiduciary duty to not only achieve the best possible returns at acceptable levels of risk, but also to act in the best interest of the wider community and environment within which we operate. We do everything we can to protect our clients so that they can achieve their investment goals in the most responsible way possible. It is for this reason that we embarked on the journey to become a PRI signatory in 2008, although our processes had already included responsible investing considerations well before this time. We recognise our duty to investigate the impact of ESG-related issues on the performance of assets. We also promote responsible alpha (responsible and sustainable benchmark-beating returns) by ensuring that the company and the asset managers we select consider and evaluate the risks and opportunities arising from the consideration and incorporation of ESG factors.

PRI assessment

The PRI assesses the year-on-year progress of each signatory relative to its global peers. The assessment covers the following reporting modules:

Investment and Stewardship Policy

An organisation's overarching approach to responsible investing and how it is governed in the organisation.

Listed equity / Fixed income / Property / Private assets

How an organisation has integrated ESG considerations into the selection, monitoring and appointment of asset managers in each respective asset class category.

The PRI rating scale ranges from 1 star to 5 stars, with 5 stars reflecting the top scoring signatories.

Our 2023 PRI Summary Scorecard (2022 calendar year)

	Star Rating	Our Score	PRI Median
Policy Governance & Strategy	★★★★	79%	★★★
Indirect - Fixed income - Active	★★★★	84%	★★★
Indirect - Fixed income - Passive	★★★★	80%	★★★
Indirect - Infrastructure	★★★★	86%	★★★★
Indirect - Listed equity - Active	★★★★	81%	★★★
Indirect - Listed equity - Passive	★★★★	81%	★★★
Indirect - Private equity	★★★★	86%	★★★
Indirect - Real estate	★★★★	84%	★★★

0 ≤ 25%	★
> 25 ≤ 40%	★★
> 40 ≤ 65%	★★★
> 65 ≤ 90%	★★★★
> 90 ≤ 100%	★★★★★

We are pleased to report that we have maintained strong ratings and are proud to have scored above our global peers across the majority of the reporting modules.

Our efforts in advancing the Principles

Our commitment to responsible investing is an integral part of our investment approach and forms part of our pursuit of aligning our operations with the PRI, we have taken decisive steps to fortify our stance on sustainability. This section serves as a testament to our ongoing efforts to evolve, improve, and innovate within the responsible investing landscape and how these efforts directly contribute to the Principles proposed in the PRI.

The below provides some background around some of the initiatives that we have introduced into our business that contributes to our continuous improvement in the space of responsible investing, with each initiative reinforcing our commitment to responsible investing and solidifying our role as a steward of responsible and impactful financial practices.

Climate change policies

We have recently launched our Climate Change Investment Policy, specifically tailored for investment processes, adhering to PRI Principle 1 by incorporating environmental issues into our investment analysis. We believe that by addressing climate risks in our portfolios, we actively contribute to positive environmental impact while safeguarding investments.

In alignment with PRI Principle 5, we have recently launched a groupwide Climate Change Policy to enhance our effectiveness in integrating sustainability considerations into our business practices and our overall decision-making processes. This policy reflects our commitment to sustainable practices, acknowledging climate change as a national priority.

Leadership in sustainability

Last year, we appointed a Group Head of Sustainability, underscoring our commitment to PRI Principles across our company. This strategic move supports Principle 1 and Principle 6 by ensuring that we have senior support in integrating relevant factors in our investment process and ensuring that we remain accountable in reporting on these efforts. Having a dedicated sustainability leadership position ensures that our commitment to PRI Principles extends to every facet of our business, strengthening our influence and impact.

Sustainability Insights

We have established a regular communication - Sustainability Insights - that echoes PRI Principle 4 and assists in promoting the acceptance and implementation of responsible investing practices within the industry. By sharing our insights on sustainability and responsible investing matters, we contribute to the industry's understanding of ESG best practices and advocate for positive change.

Impact Centre of Excellence

In an effort to centralising our sustainability efforts and providing subject matter expertise, the Alexforbes Impact Centre of Excellence aligns with PRI Principles 1 and 2. The CoE ensures ESG considerations are integrated into investment decisions and ownership policies. Its focus on governance, standardization, collaboration, and performance measurement supports the principles, facilitating a more coordinated approach to responsible investing and enhancing outcomes for our clients.

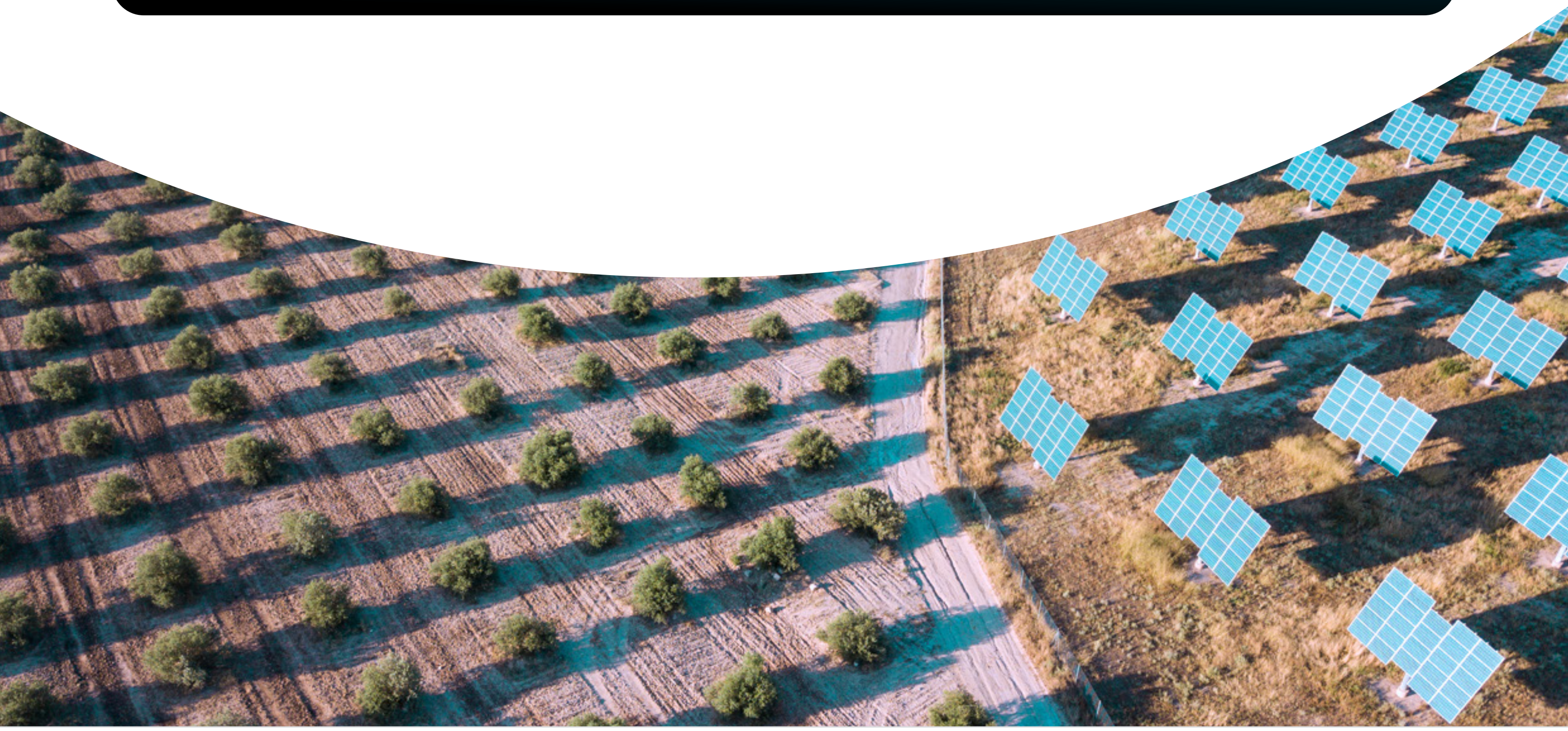
Stewardship report

Active stewardship and engagement are fundamental to our role as an asset owner and as a fiduciary. In our ambition to both create and protect long-term value, we believe that it is important to take stock of where we are as an industry today. In the spirit of providing meaningful insights and measuring our responsible investing efforts, we launched our inaugural stewardship report in 2023 that aimed to highlight key insights related to responsible investing and ESG integration in South Africa.

To this end, our **Stewardship Report** aligns with all PRI Principles. By actively engaging with asset managers, being active owners, incorporating ESG into ownership policies and disclosing on ESG issues, the report's comprehensive insights contribute to the broader industry understanding of responsible investing. It showcases our commitment to transparency and accountability, embodying the Principles in our stewardship efforts, creating a foundation for a sustainable future.

We take responsible investing seriously. The PRI ratings reflect our continued efforts of becoming a leader in the field of RI and securing the best possible returns at acceptable levels of risk, sustainably, on behalf of clients. Over the years, our sustainability beliefs have been recorded in our responsible investing policy, outlining our philosophy and approach to RI. This policy ultimately dictates how we practice responsible investing on behalf of our investor clients.

More information around our commitment to responsible investing is available here.



Expert insights - An interview with ...

Mandisa Zavala

Head of Asset Allocation, Alexander Forbes Investments

Please introduce yourself: name, designation and company name.

Mandisa Zavala, Head of Asset Allocation, Alexander Forbes Investments

What motivated you to become an investment professional?

Growing up, I saw many elders struggling with debt, often borrowing from loan sharks just to afford necessities. This inspired me to help improve the lives of the most vulnerable in our communities. Becoming an investment professional aligned with this desire, as my daily job involves protecting and growing hard-earned income to hopefully create generational wealth, especially for those starting from the bottom.

How does your investment style and philosophy influence your approach to managing client portfolios?

I am a goal driven investor; so, before I start formulating any investment idea, I first determine what the goal is, understanding that goals are dynamic so there is also dynamism to how I think about investing. If the goal is capital appreciation, I focus my efforts on seeking out opportunities that will increase the odds of successfully growing the investment considering the current market landscape. This dynamic strategy allows me to adapt and optimize my investment ideas to meet evolving targets effectively.

How do you stay disciplined and avoid making emotional decisions during market volatility?

I am always grounded by the framework, which some would call the process. Most often, one builds a process free of any biases, and if it built robust enough, it should consider different market and economic trends. So, after I establish my goal, I then go to the process and allow the process to interrogate my stance on a particular investment idea; if an investment idea cannot withstand scrutiny within this framework, I do not proceed.

What are one or two of the most common mistakes you see novice investors make, and how can they avoid them?

For young people, it is Capitulating: Our generation has become accustomed to very quick turnarounds, so the concept of being a millionaire through discipline and time doesn't seem appealing to most. For older people, it is being too Dogmatic: evolution does come with improved understanding and change in how things were done before. Being married to the "old way" of doing things often leaves them lagging as they fail to appreciate that themes and trends can play out for longer than they expect.

How do you think advancements in technology such as AI is changing the investment industry and how are you adapting to these changes?

The speed of getting things done is now infinitely quicker than it was a hundred years ago. This should be embraced and used a means to create capacity for other forms of enhancements. We can spend less time on mundane administrative tasks for instance but use the time to build up our knowledge on how we expect the industries to evolve under deglobalisation trends for instance.

What are one or two of the biggest challenges you face as an investment professional and how do you address them?

A significant challenge for me is being able to effectively communicate complex financial concepts and market strategies to clients. I am very passionate about investor education, so it is essential to me that clients understand the rationale behind our investment decisions and feel confident in our approach. To tackle this, I prioritise clear, transparent communication and tailor my explanations to each client's level of knowledge and comfort.

What are one or two of the most important lessons you have learned about investing over the course of your career?

The greatest one is Humility. In our space you can get an idea right and be hailed for having had foresight to what others might not have seen, but the reality is that none of us have foresight - investing is both an art and science. Being right today does not mean you will be tomorrow, and the market has a very funny way of humbling those that think they know it. So, I always try to remember the end goal and only dwell on the losses and gains long enough to learn from them; but not longer than I need to.

What sets you apart from other investment professionals and how do you differentiate yourself in a crowded field?

I would like to think that everyone is unique, so no two investment professionals are the same, even if we have the same philosophy. So, I don't really think I stand out from the crowd in this regard, only that I have been in the field long enough to appreciate that to learn, you must be willing to unlearn. This is one of the hardest yet most liberating teachings I have been afforded in this space.

Finally, what advice would you give to someone who is just starting to invest their money and looking to build a diversified portfolio?

Read, read and read some more. Most of the people we revere and find "deep" are people who consume a lot of literature. There is this interesting perception that has risen that all you need to be a multibillionaire investor is good intuition and a good phone with very fast WIFI, but truthfully, the people we often look up to did not invest based on a whim, they interrogated and understood how others before them did it. There is a lot we can garner from each other, and reading is the best way to gain understanding and insight you otherwise would not have had. So read.

Word
on the street

What does **Jibar cessation** mean?

The cessation of the Jibar refers to the situation where the benchmark will no longer be published past a certain date. This will mean that all contracts referencing the Jibar will need to be actively transitioned to an alternative reference rate and/or make provision for the use of an appropriate fallback rate. New contracts entered after the announcement of the cessation date and which mature after the cessation date will need to reference an alternative rate, preferably the designated successor rate.

What is **ZARONIA**?

ZARONIA is an acronym for South African Rand Overnight Index Average. It is the MPG's preferred successor rate to the Jibar. The rate is a measure of the interest rate at which rand-denominated overnight wholesale funds are obtained by banks in South Africa. The rate is based on unsecured overnight call deposits placed with commercial banks, which are classified as deposit-taking institutions in the Banks Act 94 of 1990.

Read more

Investor education
The case for private markets

Why invest in private markets?

Investors around the world are faced with the uncertainty of inflation and geopolitical conflicts that are adding to volatility, and investors are increasingly concerned about elevated valuations across multiple asset classes.

To navigate the current environment and to build sustainable portfolios requires a need for alternative sources of investment return drivers, such as private markets.

Diversification benefits

Private markets provide diversification benefits as they are not highly correlated to, or do not move in line with traditional asset classes. For example, the dynamics that drive returns in listed equity markets can have little impact on private equity, thereby enhancing diversification potential.

Infrastructure investments also tend to be less cyclical in nature and have lower correlation to public markets than other investments. As such, their inclusion in an investment portfolio tends to result in better risk-adjusted returns with lower overall volatility.

Protect against inflation

Private market investments in assets, such as infrastructure and direct property, operate on long-term fixed contracts, which offer investors returns linked to inflation. The prices at which one can sell these assets, as well as the regular income generated by investing in these assets typically rise in line with inflation.

Enhance returns through access to diverse investment opportunities

Private markets can provide exposure to return drivers simply not available in the liquid public markets. These return drivers might be attractive because they have the potential to offer greater compensation for risk than might be available in the liquid public markets, or because they are expected to provide a different return profile to other parts of an investor's portfolio.

Societal benefits

Private markets offer an opportunity to invest in projects that contribute to economic and social development objectives, as well as the transitions towards a greener economy through investing in renewable energy projects, assisting in the development and upliftment of the communities that surround them.

Access infrastructure assets

Through private market strategies, investors can also access infrastructure assets The most recent amendments to Regulation 28 of the Pensions Fund Act, gazetted in July 2022 and effective 3 January 2023, introduced both a definition of infrastructure as well as a limit across all infrastructure assets set at 45%. The increased focus on infrastructure investments is a welcomed one, particularly due to the exponentially higher levels of impact that infrastructure investments can have on local economic growth and job creation. With the right incentives and investment propositions, the allowance to infrastructure assets has the potential to promote significantly better outcomes for institutional investors and greater benefits for society.

Conclusion

Private markets represent an important part of the global opportunity set for long-term investors, offering exposure to a diversified mix of return drivers. In an environment like the one we are faced with now, the need for alternative investments - such as private markets - should be seen as critical for inclusion in an investor's existing investment strategy to help achieve their expected long-term investment outcomes.

We believe that investing in a private markets programme that is diversified across various strategies can offer trustees several benefits, as well as help them address some of the key challenges and considerations when looking to access and benefit from this investment universe. **Speak to your Alexforbes consultant to find out how we are helping trustees improve the likelihood of achieving members' long-term objectives, while making a meaningful environmental and societal impact.**

Financial food for thought: **Weakness or strength?**

The obstacle in our path

In ancient times, a king had a boulder placed on a roadway. Then he hid himself and watched to see if anyone would remove the huge rock. Some of the king's wealthiest traders and dignitaries came by and simply walked around it.

Many loudly blamed the king for not keeping the roads clear, but none did anything about getting the big stone out of the way. Then a peasant came along carrying a load of vegetables. On approaching the boulder, the peasant laid down his burden and tried to move the stone to the side of the road.

After much pushing and straining, he finally succeeded. As the peasant picked up his load of vegetables, he noticed a purse lying in the road where the boulder had been.

The purse contained many gold coins and a note from the king indicating that the gold was for the person who removed the boulder from the roadway. The peasant learned what many others never understand.

Every obstacle presents an opportunity to improve one's condition.

In finance, every challenge is a chance to create value. Much like the peasant who removed the boulder and found gold, tackling financial obstacles head-on can uncover unexpected opportunities. Start your journey to financial success by embracing challenges and transforming them into opportunities.

Begin today by reviewing your investment strategy for potential hurdles and discover the hidden potential in overcoming them. Schedule a consultation with our financial advisors to turn obstacles into opportunities.

* To find out more about your options and to get help when you need it, contact our My Money Matters centre on 0860 000 381 or **mymoneymatters@alexforbes.com**.

Conclusion

We addressed several different financial and investment-related subjects in the newsletter, giving an outline of some intriguing survey findings and covered prominent industry news with key points based on quarterly economic performance.

Furthermore, we presented data on asset class performance and covered responsible investing in our sustainable considerations section. We also included an insightful interview with a field expert, discussed the concept of private market investing and shared a brief story as financial food for thought.

Lastly, we closed off with a "word on the street" section where we presented key insights related to the cessation Jibar and the introduction of ZARONIA. We hope you found this newsletter to be stimulating and educational and eagerly await your comments and ideas. Please feel free to share any comments, questions or suggestions by sending an email to **managerwatch@alexforbes.com**.

Glossary

Asset allocation: Dividing an investment portfolio among different types of assets (like equities, bonds, and cash) to achieve the desired risk and return, based on goals, risk tolerance, and time horizon.

Active return also known as relative return, represents the difference between the actual return of the portfolio and the return of a specified benchmark over a given period of time.

Best Investment View (BIV): The portfolio/ composites included in this -survey represent the asset managers' best unconstrained investment view, appropriate to Regulation 28 compliant retirement funds.

Code for Responsible Investing in South Africa (CRISA): Guidelines in South Africa that promote responsible investing practices. It encourages considering environmental, social, and governance (ESG) factors in investment decisions.

Futures are standardised contracts to buy or sell an asset at a predetermined price and date in the future.

Geopolitical tensions: Conflicts or disputes between nations that impact financial markets. They can cause trade disruptions, policy changes, or increased market volatility.

Gharar refers to excessive uncertainty or ambiguity in Islamic finance. It pertains to transactions that involve an element of risk or speculation that is considered excessive and is not allowed according to Islamic principles.

Haram means forbidden or prohibited in Islamic law. It refers to actions, behaviours, or practices that are considered sinful or unethical and are not allowed according to Islamic teachings.

Median return: the middle value of a set of returns or performance of a group of investments.

Principles for Responsible Investment (PRI): A global initiative promoting sustainable investing. It encourages investors to incorporate ESG factors for long-term sustainable returns.

Regulation 28: South African regulation for retirement funds, setting investment limits and guidelines. It ensures diversification and risk management by specifying exposure to different asset classes, sectors, and regions.

Retail investing involves individuals directly buying and selling securities like stocks and bonds through brokerage firms or online platforms, using their own money rather than managing funds for organisations. It's accessible to ordinary people, who make investment decisions based on personal research and goals.

Riba means interest. It refers to the prohibition of charging or earning interest in Islamic finance, as it is considered unethical and against Islamic principles.

Options contracts provide the buyer the right, but not the obligation, to buy (call option) or sell (put option) an underlying asset at a predetermined price within a specified period.

Shari'ah: Islamic principles and guidelines for financial activities, including investments. It prohibits interest-based transactions and investments in sectors like alcohol, gambling, or pork.

Swaps involve the exchange of cash flows or other financial instruments between two parties.

Targeted Development Investment (TDI): These investment portfolios aim to maximise investor returns while paying attention to socially responsible investing and issues relating to the development and upliftment of previously disadvantaged communities

Warrants are options issued by financial institutions, granting the holder the right to buy or sell an underlying asset at a predetermined price.